- A 6650-24 1185 -

NABE NEWS
(USPS 093190)
November 1984, No. 48

ANNUAL MEETING REVIEW

MEMBERSHIP SURVEY

Presented By
Ben E. Laden
Vice President, NABE

The third quarter survey of NABE members shows a significant slowdown in the growth rate of business activity during the summer of 1984. However, according to our forecast, this is a temporary lull, not the beginning of a downturn. We look for the expansion to continue another nine to 21 months. The survey indicates that the economy has undergone a transition to a more mature stage of the cycle dominated by investment spending and inventory building, rather than expenditures on housing and automobiles. Our members also report a lessening of inflation and sharply slower growth of profit margins.

These are among the conclusions from the latest poll of 205 members of the National Association of Business Economists conducted during early September by the Survey Research Center at the University of Michigan.

Our long-range outlook is the best since 1978 for GNP growth in the five years ahead. Inflation expectations are the lowest in the 10 years that we have asked this question in our annual poll. Our outlook for productivity is for more than 2% average annual improvement.

The economists surveyed believe that changes in fiscal policy are past due, with about equal emphasis on cuts in spending and increases in taxes. Given that NABE members expect the cycle to peak between the second quarter of 1985 and the second quarter of 1986, these deflationary measures could serve to worsen the next recession.

Economists in the South and West continue to expect their areas of the country to have the highest growth rates, but optimism for the West is sharply lower than it was three months ago.

CURRENT BUSINESS CONDITIONS

During the third quarter, 57% of the survey reported that demand was increasing from three months earlier, down from 75% in the second quarter survey and the lowest since the first quarter of 1983. The drop in manufacturing was even sharper, from 81% to 53%. A similar pattern is seen regarding increases in employment. The economy continued to rise during the summer. Many more respondents reported increases in demand and employment than there were who reported declines. But there were fewer reporting increases than at any time since early in the recovery.

A transition to a more mature stage of the business cycle is indicated by the strong rise to 50% in respondents reporting increases in capital investment (59% in manufacturing). The number in manufacturing who reported increases in inventories fell back to 40% from 49%, but was higher than in all other periods in the two and one-half year history of our quarterly surveys.

There was a sharp decline in the percentage reporting increases in the prices charged by their companies to 18% from 50%. A larger number (22%) reported that prices fell, the first time since the second quarter of 1983. This is consistent with the decline to 34% from 43% in the respondents seeing increases in profit margins, and the drop to 37% from 41% in the number paying higher wages. It is noteworthy that only 1% say that wages are declining, the lowest since the beginning of the survey in the second quarter of 1982.

THE ECONOMIC OUTLOOK

Business economists significantly increased their forecasts for GNP growth in 1984 and raised their sights for 1985 during the last three months. The NABE consensus shows a significant reduction in expectations for inflation. We now project a 5% increase in the CPI in 1985, down from 6% three months ago. However, this would mean an acceleration of inflation from 4.2% in 1984.

Despite good economic growth, we anticipate only a modest decline in the unemployment rate, from 7.5% this year to 7.2% next year. Our survey finds expectations for further increases in the prime loan interest rate from 13% to 13.5% by year-end. Developments in the past few weeks might affect our near term forecasts, but NABE respondents indicate that the peak in the prime rate for this business cycle will not take place until the second half of 1985.

We expect both housing starts and automobile sales to decline in 1985 compared to 1984. The forecast of an eye-opening 19.8% rise in real business fixed investment this year is followed by another strong increase of 10.1% for 1985. The NABE consensus calls for an 8.1% increase in corporate profits, somewhat less than our projected rise in nominal GNP.

REGIONAL CONDITIONS

Analysts in the South and West continue to expect their

regions of the country to grow faster than the national average. However, the relative optimism in the West is sharply lower than it was three months ago and pessimism is much greater in the North Central region with 50% now reporting that their region will grow more slowly than the national average.

Economists in the Northeast and the South expect the unemployment rate to be lower than in the country as a whole. Economists in the West are now less optimistic also concerning unemployment with 54% now expecting a higher rate, compared to 35% three months ago.

THE LONG-TERM OUTLOOK

This is the tenth year we have asked members about the outlook for growth and inflation over the following five years. It is the sixth time we have asked about productivity growth. Our outlook for 3.3% compound growth in real GNP is the best since 1978 and compares with 2.6% two years ago. We are forecasting 5.5% inflation over the next five years, the lowest we have reported over the past decade and down from 8.2% in 1980. We project 2.3% average increases in productivity, the first time we have reported a forecast above 2%. Compared to what has happened over the past five years, we are expecting 50% more GNP growth, 15% less inflation and 65% higher productivity increase.

We also gave a range of what we believe could be the highest and lowest likely outcomes over the next five years. Most interesting are our answers for inflation. The average of the lowest expectations is 3.4% and the average of the highest is 7.7%. Very few of our colleagues believe that either deflation or double-digit inflation is a realistic possibility over the next five years.

POLICY ISSUES

NABE members responding to the poll overwhelmingly support the Federal Reserve Board's policies and charge that fiscal policy is too stimulative. The percentage saying that monetary policy is "about right" rose to the highest in survey history, 85%. Eighty-two percent think that fiscal policy is too stimulative.

When asked which major party candidate for President has the best plan for solving our economic problems, 64% said President Reagan. Only 9% said Walter Mondale, but 27% said "neither one." A similar question asked in 1980 found 60% in support of Reagan and 11% choosing Carter.

When asked what they think the next Administration should do about fiscal policy, only 2% said "do nothing." There was about equal backing for cutting spending without raising taxes (42%) and a variety of choices for raising taxes without cutting spending. Nineteen percent stressed broadening the tax base, 10% would introduce a value-added tax or new excise taxes, 7% would impose surcharges on existing personal and corporate income taxes and 5% would replace the income tax with a consumption tax. Seventeen percent rejected all the choices given, presumably because they believe that spending cuts and tax increases are equally important.

PEAK OF THE CYCLE AND OTHER ISSUES

Our survey found only 8% who believe that the current business cycle will peak before year-end. About one out of seven picked each of the five quarters spanning the period between the second quarter of 1985 and the second quarter of 1986 as the cyclical peak. Only 5% believe that the cycle can extend into 1987, which would be the fifth

NATIONAL ASSOCIATION OF BUSINESS ECONOMISTS

NABE News is published six times annually by the NABE

November 1984, No. 48

Editor: GRACE WICKERSHAM
Glendale Federal Savings

Associate Editors:
ROGER C. BIRD, Wharton EFA
PAUL A. ANTON, First Bank Minneapolis

Office of Publication:
28349 Chagrin Boulevard
Cleveland, Ohio 44122
Second Class Postage
Paid at Cleveland, Ohio

Single Copies $7.50

POSTMASTER:
Please send form 3579 to:
NABE
28349 Chagrin Blvd., Suite 201
Cleveland, Ohio 44122

The analysis, conclusions, and opinions expressed in *NABE News* are those of the authors and not those of the National Association of Business Economists, its officers and directors, or other persons or institutions associated with its work. Therefore, the National Association of Business Economists assumes no responsibility for views expressed by the authors of articles published in *NABE News*.

year of expansion. Almost no one, then, believes that this expansion can last as long as the 1975-80 cycle.

The reasons cited for expecting a shorter cycle are (1) high interest rates; (2) large budget deficits; and (3) loss of competitiveness on world markets.

Our forecasts for budget deficits are $175B for FY84 and $180B for FY85. What is striking is the wide range of estimates, $100 to $285B in 1985.

Our respondents reported that the best investment over the next 12 months would be Treasury bills (35%). Stocks and bonds each drew the support of 24%. Only 8% picked real estate and just 2% selected gold as the best place to invest their money.

FORECAST RECORD FOR 1984

Last year's Annual Meeting Survey predicted a strong rise in real GNP and lower inflation. We got the direction right but we were not nearly optimistic enough. Our current forecast for GNP this year is a 6.9% increase compared to our prediction of 4.5% at last year's meeting. The CPI is now expected to rise 4.1% this year compared to our forecast of 5.0%. Our closest call, evidently was the budget deficit. Our forecast last year of $180B compares to current expectations of $175B.

CONCLUSIONS

The pace of growth moderated significantly during the summer. However, according to our survey, this is a temporary slowdown and a transition to a more mature stage of the business cycle, not a precursor of recession. The U.S. economy is still expanding and has another three to seven quarters of growth ahead. Our members call on the President and the Congress to reduce budget deficits, even though these deflationary measures could coincide with the next recession. Two conclusions follow: (1) addressing the problems in fiscal policy has been delayed too long to avoid significant cyclical effects in 1985-86 and (2) Business economists are more concerned about the correct structural policies for the long-run than they are about trying to fine tune the business cycle.

Despite our concern about government policy, our optimism regarding the long-term has increased significantly over the last two years.

Ben E. Laden is also Vice President and Chief Economist for T. Rowe Price Associates, Inc., and the NABE President for 1984-85.

TABLE I

CONDITIONS IN YOUR COMPANY DURING THE PAST THREE MONTHS

(Percentages of those responding)

SUBJECT		TOTAL ALL SECTORS			MANUFACTURING		
	SURVEY DATE	RISING	SAME	FALLING	RISING	SAME	FALLING
DEMAND	3Q84	57%	32%	11%	53%	36%	11%
(Unit Volume)	2Q84	75	20	5	81	15	4
	1Q84	74	24	3	88	10	2
	4Q83	70	28	2	84	16	0
	3Q83	66	25	9	74	23	3
	2Q83	59	27	14	65	20	15
	1Q83	43	33	24	38	30	33
	4Q82	32	41	28	21	43	36
	3Q82	33	39	29	30	25	45
	2Q82	29	52	39	15	23	62
EMPLOYMENT	3Q84	26	59	15	30	59	11
	2Q84	36	55	9	44	50	6
	1Q84	34	54	13	36	48	16
	4Q83	36	49	15	43	41	16
	3Q83	31	52	17	34	45	20
	2Q83	22	60	18	19	55	26
	1Q83	13	55	32	10	44	46
	4Q82	13	54	33	10	33	56
	3Q82	9	57	34	8	37	55
	2Q82	19	46	34	17	32	51

(continued on next page)

TABLE I (continued)

SUBJECT		TOTAL ALL SECTORS			MANUFACTURING		
	SURVEY DATE	RISING	SAME	FALLING	RISING	SAME	FALLING
INVENTORIES	3Q84	35%	40%	25%	40%	39%	21%
(Unit Volume)	2Q84	51	36	13	49	38	13
	1Q84	23	47	30	20	41	39
	4Q83	35	42	23	33	42	25
	3Q83	26	38	36	23	32	45
	2Q83	22	38	40	13	36	52
	1Q83	25	33	42	8	33	59
	4Q82	25	41	34	19	37	44
	3Q82	18	52	30	16	43	41
	2Q82	25	30	45	29	20	52
CAPITAL	3Q84	50	41	9	59	37	4
INVESTMENT	2Q84	43	52	6	45	53	2
OUTLAYS	1Q84	46	46	8	46	46	8
(Constant dollars)	4Q83	33	56	11	29	60	11
	3Q83	39	46	14	26	55	19
	2Q83	32	33	27	17	45	38
	1Q83	20	55	26	16	42	42
	4Q82	21	44	35	20	27	53
	3Q82	28	39	33	24	27	49
	2Q82	33	39	28	39	29	32
PROFIT	3Q84	34	52	14	27	61	12
MARGINS	2Q84	43	37	20	70	20	10
	1Q84	40	45	16	52	35	13
	4Q83	54	27	19	67	21	13
	3Q83	45	27	29	55	33	13
	2Q83	44	33	23	40	34	25
	1Q83	33	30	38	22	32	46
	4Q82	39	22	39	30	19	51
	3Q82	31	27	42	20	22	58
	2Q82	18	23	59	7	21	72
PRICES YOU	3Q84	18	60	22	14	62	24
CHARGE	2Q84	50	45	5	36	52	12
	1Q84	22	67	11	28	54	18
	4Q83	20	69	11	19	70	11
	3Q83	32	56	12	20	62	19
	2Q83	18	48	34	24	52	24
	1Q83	10	46	44	15	43	43
	4Q82	12	44	44	13	49	38
	3Q82	15	50	35	15	54	31
	2Q82	17	62	21	9	55	36
WAGES YOU PAY	3Q84	37	62	1	34	66	0
	2Q84	41	58	2	38	62	0
	1Q84	45	52	3	40	54	6
	4Q83	44	52	3	39	57	4
	3Q83	40	55	6	24	68	8
	2Q83	36	56	8	31	62	7
	1Q83	51	43	6	51	42	7
	4Q82	38	52	10	36	53	11
	3Q82	45	50	5	41	51	8
	2Q82	53	40	7	—	—	—

TABLE II

GENERAL BUSINESS OUTLOOK

(Median Estimates)

	Survey Date			
	3Q84	2Q84	1Q84	4Q83
REAL GNP % Change				
1984:4	3.9%			
1983:4 to 84:4	6.4	4.9%	4.2%	4.9%
1984 vs. 1983	6.9	5.7	4.8	5.0
1985 vs. 1984	3.6	3.4		
1984:4 to 85:4	3.1			
CPI-U % Change				
1983:4 to 84:4	4.2%	5.2%	5.0%	5.1%
1984 vs. 1983	4.1	5.0	4.8	5.0
1985 vs. 1984	5.0	6.0	—	—
1984:4 to 85:4	5.4			
CIVILIAN UNEMPLOYMENT RATE				
4Q84	7.1%	7.4%	8.0%	8.1%
Average for 1984	7.5	7.9	8.0	8.3
Average for 1985	7.2			
PRIME RATE				
Dec. 31, 1984	13.5%	13.0%	11.6%	11.2%
June 30, 1985	13.9			
Dec. 31, 1985	13.8			
HOUSING STARTS (Private, non-farm, annual rate, in millions)				
4Q84	1.68	1.70	1.70	1.74
Year 1984	1.80	1.80	1.70	1.73
Year 1985	1.60	1.60	—	—
NEW CAR SALES (Includes imports, annual rate, in millions)				
4Q84	10.6	10.1	10.3	10.3
Year 1984	10.8	10.1	10.0	10.0
Year 1985	10.3			
REAL, NON-RESIDENTIAL FIXED INVESTMENT % Change				
1983:4 to 84:4	17.1%	10.1%	9.6%	8.9%
1984 vs. 1983	19.8	12.8	11.0	9.1
1985 vs. 1984	10.1	7.9	—	—
CORPORATE PROFITS % Change				
1985 vs. 1984	8.1%			

TABLE III

THE REGIONAL OUTLOOK

(Last Quarter's Survey Results Shown in Parentheses)

GROWTH BY REGION

Do you think the overall growth rate in your part of the country will be faster than, or slower than the national rate during the next 12 months?

	Faster	Same	Slower
Northeast	31% (32)	45% (47)	24% (22)
North Central	15 (32)	35 (27)	50 (41)
South	49 (53)	33 (27)	18 (20)
West	50 (65)	17 (16)	33 (19)

UNEMPLOYMENT BY REGION

Do you think the unemployment rate in your part of the country will be higher than, or lower than the national rate during the next 12 months?

	Lower	Same	Higher
Northeast	57% (51)	22% (28)	22% (21)
North Central	8 (11)	10 (8)	82 (81)
South	62 (77)	16 (7)	22 (17)
West	32 (49)	14 (16)	54 (35)

TABLE IV

RANGE OF POSSIBLE OUTCOMES FOR THE NEXT 5 YEARS

1. What annual compound growth rate in real GNP do you expect over the five years ending in December 1988?

Highest	Most Likely	Lowest
4.4%	3.3%	2.0%

2. What annual compound growth rate in productivity do you expect over the five years ending in December 1988?

Highest	Most Likely	Lowest
3.3%	2.3%	0.9%

3. What annual compound rate of increase in the Consumer Price Index do you expect over the five years ending in December 1988?

Highest	Most Likely	Lowest
7.7%	5.5%	3.4%

TABLE V

NABE CONSENSUS LONG-TERM OUTLOOK

			Historical Record	
	Year Forecast	Projected Rate		Actual Rate
Projected Real GNP Growth	1975 (74-79)	3.7%	1974-79	3.5%
	1976 (75-80)	4.1	1975-80	3.7
	1977 (76-81)	3.7	1976-81	3.1
	1978 (77-82)	3.4	1977-82	1.6
	1979 (78-83)	2.7	1978-83	1.3
	1980 (79-84)	3.0	1979-84e	2.2
	1981 (80-85)	3.2		
	1982 (81-86)	2.6		
	1983 (82-87)	2.8		
	1984 (83-88)	3.3		
Projected Inflation Rate*	1975 (74-79)	6.4%	1974-79	7.3%
	1976 (75-80)	5.8	1975-80	7.2
	1977 (76-81)	6.0	1976-81	8.1
	1978 (77-82)	6.5	1977-82	8.1
	1979 (78-83)	7.6	1978-83	7.4
	1980 (79-84)	8.2	1979-84e	6.5
	1981 (80-85)	7.3		
	1982 (81-86)	6.6		
	1983 (82-87)	6.0		
	1984 (83-88)	5.5		
Projected Productivity Growth	1979 (78-83)	1.2%	1978-83	0.6%
	1980 (79-84)	N/A	1979-84e	1.4
	1981 (80-85)	1.4		
	1982 (81-86)	1.5		
	1983 (82-87)	1.8		
	1984 (83-88)	2.3		

**GNP Deflator for 1975-1981*
CPI-All Urban Consumers for 1982-1984

TABLE VI

POLICY ISSUES

1. Have recent monetary policy actions been too stimulative, or too restrictive?

Survey Date	Too Stimulative	About Right	Too Restrictive
3Q84	4%	85%	11%
2Q84	12	74	14
1Q84	3	78	19
4Q83	3	82	15
3Q83	23	69	8

(continued on next page)

(TABLE VI continued)

2. Is current fiscal policy too stimulative, or too restrictive?

Survey Date	Too Stimulative	About Right	Too Restrictive
3Q84	82%	15%	3%
2Q84	83	14	3
1Q84	81	14	4
4Q83	73	22	5
3Q83	76	20	5

3. Given the stated economic policies of the major party candidates for president, which one do you think has the best plan for solving our economic problems?

Walter Mondale	9%
Ronald Reagan	64
Both Equally	1
Neither One	27

4. Which of the following choices best describes the advice you would give the next Administration regarding fiscal policy?

Reduce currently-planned future government spending without raising taxes.	42%
Broaden the tax base for personal income taxes and lower marginal tax rates.	19%
None of the other choices; do something else.	17%
Introduce a value-added tax or new excise taxes.	10%
Impose a surcharge on personal and corporate income taxes.	7%
Replace the current personal income tax system with consumption taxes.	5%
Do nothing.	2%

TABLE VII

PEAK OF THE CYCLE AND OTHER QUESTIONS

1. In what year and quarter do you expect the current business cycle expansion to peak?

Survey Date	1984	1985	1986	1987	1988 or later
3Q84	8%	44%	43%	4%	1%
2Q84	12	57	26	4	1

1984				1985				1986				1987	1988
Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1 or later	
4	5	3	14	12	14	15	12	9	6	1	2	0	1	2	

2. Why do you expect this expansion to be shorter than the post-war average of 46 months?

A. High interest rates	79%
B. Large Federal Deficits	71%
C. Loss of competitiveness on world markets	38%

3. What is your forecast for the unified Federal budget deficit in fiscal 1984 and 1985?

	FY84	FY85
	$175B	$180B
Range	$150-245	$100-285

4. Which of the following types of investment would you expect to earn the highest positive return over the next 12 months?

Treasury Bills	35%
Stocks	24
Bonds	24
Real Estate	8
Other Investments	7
Gold	2